

Message Text

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PAGE 01 JIDDA 01251 141131Z

ACTION NEA-07

INFO OCT-01 SS-14 ISO-00 INR-05 CIAE-00 NSC-05 NSCE-00

SP-02 EB-04 TRSE-00 OMB-01 IGA-01 EUR-08 /048 W

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 7281

INFO AMEMBASSY BONN

C O N F I D E N T I A L JIDDA 1251

LIMDIS

E.O. 11652: GDS

TAGS: EIND, EFIN, SA

SUBJ: ADVISORS URGE SAG TO CUT EXPENDITURES

REF: (A) JIDDA 836, (B) JIDDA 1173

1. INFLATION RATE IN SAUDI ARABIA HAS DROPPED IN RECENT MONTHS (REF A), BUT SERIOUS INFLATIONARY PRESSURES REMAIN AND SAG IS INCREASINGLY CONCERNED OVER ESCALATING COSTS OF ITS DEVELOPMENT PROJECTS (REF B). AGAINST THIS BACKGROUND, SAG IS RECEIVING RECOMMENDATIONS FROM WELL-PLACED ADVISORS THAT IT LIMIT OR CUT BACK GOVERNMENT EXPENDITURES SHARPLY.

2. KARL SCHILLER, EX FRG MIN ECONOMY, IS CURRENTLY FINISHING SIX MONTH CONSULTANCY TO SAG AND PREPARING REPORT WHICH, WE UNDERSTAND, WILL IDENTIFY INFLATION AS NUMBER ONE SAUDI ECONOMIC PROBLEM AND RECOMMEND SEVERE (PERHAPS UP TO 50 PERCENT) REDUCTIONS IN DEVELOPMENT PROJECT SPENDING.

3. FOREIGN ADVISOR TO MINISTRY OF PLANNING, WHOSE SPECIAL FIELD HAS BEEN INFLATION CONTROL, RECENTLY SUBMITTED END-CONFIDENTIAL

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PAGE 02 JIDDA 01251 141131Z

OF-TOUR REPORT WHICH GIVES PRIORITY TO RECOMMENDED INCREASE IN CONTROL OF GOVERNMENT EXPENDITURE (INCLUDING STRETCH-OUT OF DEVELOPMENT PLAN AND DELAY IN TRANSFER OF EMBASSIES TO RIYADH, ELIMINATION OF LOW-PRIORITY PROJECTS, RIGOROUS FEASIBILITY STUDIES, ETC). REPORT ALSO SUMMARIZES RECOMMENDATIONS IN CONTRACTING AND PROCUREMENT PROCEDURES, LABOR REGULATIONS, PRICE AND RENT CONTROLS, PRIVATE LIQUIDITY

REDUCTION, AND INFLATION MONITORING; IT CONSTITUTES AN INTERESTING SYNOPSIS OF THE DEVELOPMENT PROBLEMS FACING THE SAG. A COPY IS BEING POUCHED TO WASHINGTON.

4. COMMENT: THE ADVICE OF FOREIGN ADVISORS, EVEN THE MOST PRESTIGIOUS, IS IGNORED HERE AS OFTEN AS IT IS HEEDDED. MANY POWERFUL INTERESTS - PERSONAL AND BUREAUCRATIC - ARE ENGAGED IN CONTINUED HIGH LEVELS OF PROJECT SPENDING, AND MONEY IS NOT A REAL CONSTRAINT IN SPITE OF OCCASIONAL BUTARY PARSIMONY PRACTICED BY THE MINISTRY OF FINANCE. BUT THE SAG, AT LEAST AT THE MINISTERIAL LEVEL, IS MORE RECEPTIVE THAN IN PAST TO THE NEED FOR FISCAL CAUTION, AND FURTHER MOVES IN THAT DIRECTION SEEM LIKELY.
PORTER

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NNN

Message Attributes

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